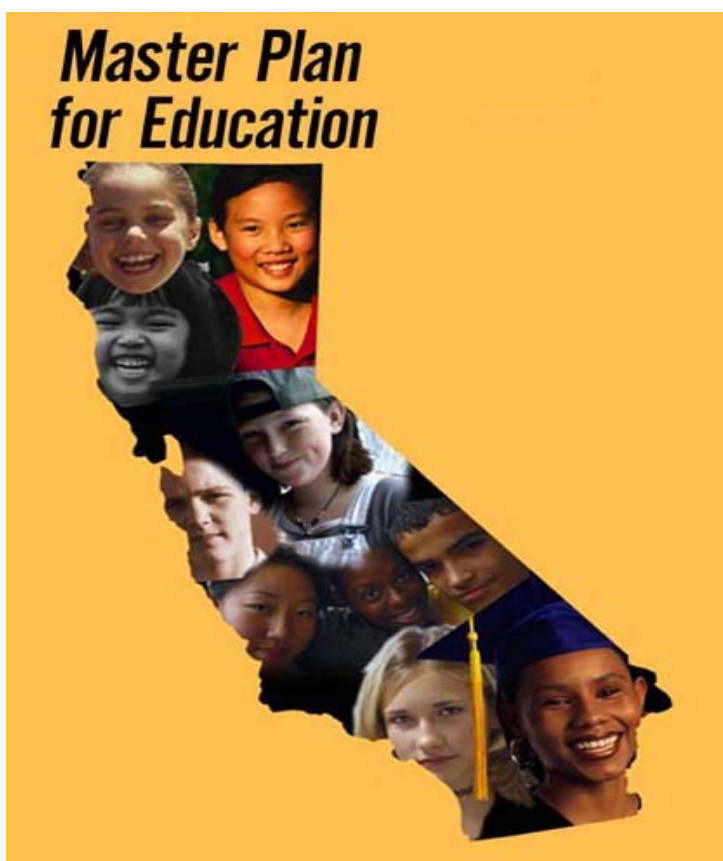


**Joint Committee to Develop a Master Plan for  
Education – Kindergarten through University**

**Finance & Facilities Working Group  
K-12 Education  
*Final Report***



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# Table of Contents

Finance & Facilities Working Group Members List

Executive Summary 1

Finance & Facilities Working Group Charge 7

## **A World Class Finance System for a World Class Education**

Part 1. Adequacy in School Finance 9

## **Distributing Resources Equitably**

Part 2. Categorical Program Adjustments 16

## **Linking the Community and the School**

Part 3. Exploring Local Revenue Options 24

## **Program Effectiveness and Accountability**

Part 4. Allocating Revenues to Support  
the Effective Delivery of Services 33

## **A Place to Learn and to Work**

Part 5. Developing and Maintaining Adequate  
and Appropriate Educational Facilities 39

Appendices 50

# **Executive Summary**

The Joint Committee to Develop a Master Plan for Education set before the Finance and Facilities Working Group specific goals and objectives to address in its report to the committee. These are shown in the description of our charge from the committee, following this summary. In brief, we were asked to make recommendations to simplify the system of school finance, to foster and support local flexibility in the use of resources, and to support adequate funding for the educational program and facilities.

We make recommendations in each of five major policy areas: (1) what funds are needed for a high quality education; (2) other funding provided in recognition of special district and student circumstances; (3) meaningful options for local communities to get money to their schools; (4) balancing flexibility in spending funds with strong accountability for how funds are spent; and (5) resources to assure that education facilities meet high standards.

Our recommendations are grouped according to these five major policy areas. They do not, however, each stand alone, and it is vitally important to understand that we are recommending a fundamental shift in the way we finance schools in California. Central to this change is our recommendation that California develop and implement a Quality Education Model. Such a model will do two things of importance: It will act as a benchmark for knowing how much we should expect to spend if we are serious about achieving the world class educational standards to which we aspire. In many ways, this will be the first time we will draw a direct, explicit link between our expectations and the resources needed to achieve them. Second, although not prescriptive in its application, a Quality Education Model will nonetheless serve as an example of research-based best practices in education, updated over time to reflect what we learn.

A Quality Education Model that leads to adequate funding for a high quality education also can promote local flexibility and autonomy for schools to respond to the unique needs of their local community. It establishes a basis for a rational accountability system because the model is built on the performance standards California has set for its schools. Local revenue options balance the statewide emphasis on meeting uniform standards by providing communities with the ability to supplement and enrich a quality education in response to their own priorities. Finally, school facilities are integrated into the characteristics of a quality education because the link between facilities, teaching and student achievement can be made explicit in the model.

The following section summarizes the recommendations contained in our report.

## **1. Assuring Adequate Funding**

### **Recommendation 1.1:**

Develop a California Quality Education Model, and use that model to determine an adequate level of funding necessary to support a high quality education for every student. In furtherance of this recommendation, we urge the Legislature to establish a 13 member Quality Education Commission, representative of business, parent and education community leaders from throughout the state.

## **2. Distributing Resources Equitably**

### **Recommendation 2.1:**

Authorize a limited set of differential cost adjustments, primarily geographic in nature, that are not under the control or influence of the school district, by establishing a District Characteristic adjustment. The additional revenue provided to school districts in recognition of these uncontrollable cost factors would result in similar levels of real resources available to all school districts in the state.

### **Recommendation 2.2:**

Establish block grants for allocation to school districts on the basis of student characteristics that mark the need for additional educational resources. Further, we strongly suggest that the adjustments in this category be limited to additional funding for (1) special education, (2) services for English language learners, and (3) resources provided in recognition of the correlation of family income level with student achievement.

### **Recommendation 2.3:**

Establish a category of K-12 grants that will be clearly identified as initiatives. These initiatives will be limited in duration and will serve one of two purposes:

- Pilot and evaluate proposed new programs before they are implemented statewide. Once implemented statewide, the funding for such a program would be consolidated into the base funding for schools, or one of the two major categories of adjustments – student characteristic and district characteristic.
- Meet immediate, but temporary, needs for additional funding targeted to specific districts to mitigate the effects of transitory, but possibly unforeseen, shocks to the instructional program.

**Recommendation 2.4:**

Adopt specific guidelines and criteria for the Legislature to use in evaluating proposed initiative programs.

**Recommendation 2.5:**

Provide funding for state agencies, or other appropriate entities, to develop material describing best practices for the administration and delivery of categorical programs. This includes the development of standardized cost models that local agencies can use to assess program implementation.

**Recommendation 2.6:**

Every new initiative program be required to have a comment period on all administrative and supervisory controls proposed by the administering agency. Alternatively, an advisory committee representative of those agencies that must administer the program may be used to develop administrative guidelines.

**3. Exploring Local Revenue Options****Recommendation 3.1:**

Approve a ballot initiative to reduce the voter approval threshold for parcel taxes from two-thirds to 55 percent.

**Recommendation 3.2:**

Authorize school districts in counties where a majority of school districts wish to join together, to propose to the electorate a sales tax increase, within the local option SUT levy limitation, to take effect with the approval of 55 percent of the voters in a countywide election. Revenue would be divided among the schools on a population (per pupil) basis, or as delineated in the tax measure. Establish a mechanism to equalize tax yield to assure each county can raise the statewide average per-pupil amount corresponding to the imposition of similar tax rates.

**Recommendation 3.3:**

Approve a ballot initiative to amend the Constitutional provisions governing the property tax to authorize school districts and other local public educational agencies to propose for approval by the electorate, with 55 percent of the voters concurring, a property tax override for the exclusive use of the public schools in the community. Assure a minimum, state-guaranteed yield per pupil through state financial assistance to communities where a self-imposed tax rate does not yield the minimum state-determined per-pupil amount for that rate.

## **4. Allocating Revenues to Support the Effective Delivery of Services**

### **Recommendation 4.1:**

Continue to emphasize the development of performance standards, and that those standards be based both on key inputs to the educational system, as well as outcome measures, and that the input standards are aligned with the California Quality Education Model.

### **Recommendation 4.2:**

Establish a consistent and straightforward way for local schools to describe their expenditure and programmatic decisions, to compare them with the state's guidelines, minimum standards, and outcome goals, and to clarify the trade-offs implicit in budget decisions.

### **Recommendation 4.3:**

To support local accountability, confirm a procedure for complaint appeal and resolution, where citizen groups may establish their case for a school failing to meet state standards, with the county office authorized to investigate the complaint. This provides a mechanism for public scrutiny and pressure to correct actions of schools and districts in the event they are unable to resolve problems on their own.

## **5. Developing and Maintaining Adequate and Appropriate Educational Facilities**

### **Recommendation 5.1:**

Replace the current school facilities financing system with stable and reliable annual state per-pupil allocations that are restricted to assisting school districts in meeting their capital and major maintenance needs.

### **Recommendation 5.2:**

Adopt a ten-year transition plan during which the reliance on state General Obligation bond proceeds allocated on a project basis to fund facilities will be phased out and funding through annual per-pupil allocations from the state General Fund will be phased in.

### **Recommendation 5.3:**

Consider authorizing a limited number of adjustments to supplement the state base facilities per-pupil allocation. As with our recommendations for adjustments to school operating fund allocations (see the Part 2: Categorical Program Adjustments), we believe special circumstances related to geographic, land use and unique school district factors may warrant consideration for additional funding beyond the annual per-pupil grant.



**Recommendation 5.4:**

Establish clear, concise and workable state facility standards that are characteristic of facilities providing a high quality/high performance teaching and learning environment.

**Recommendation 5.5:**

Require each school district to prepare and, with appropriate public review, adopt a five-year Facilities Master Plan to meet or exceed state facilities standards.

**Recommendation 5.6:**

Adopt necessary policy and statutory changes so that the annual budget for each school district will include a capital spending component that is reviewed and assessed as part of the AB 1200 financial and management accountability process. Technical assistance, which may be warranted based on such a review, shall be made available to school districts through regional and state agencies.

**Recommendation 5.7:**

Create a statewide school facilities inventory system that will assist decision makers to determine state and local short and long term school facilities needs; collect only the most critical, basic information needed to make necessary management decisions; utilize information contained in existing data collection reports before requiring school districts to report additional information needed for the school facilities inventory system.

**Recommendation 5.8:**

Give local districts autonomy to expend state and local funds as appropriate insofar as such expenditures of funds enable the district to meet or exceed statewide standards for adequate facilities. Local districts would conduct required self-assessments against their Facilities Master Plans, and be required to publicly share the results of those assessments with members of their communities – students, parents, and community leaders – annually.

**Recommendation 5.9:**

Provide financial incentives to school districts to promote joint or shared use of facilities. We also recommend that the state develop a technology infrastructure among, between and within educational entities that would promote improved education delivery and access to a wider range of education resources.

**Recommendation 5.10:**

Ensure timely adoption and implementation of OEHHA's guidance document by DTSC and other state and local agencies for assessing exposures and health risks at existing and proposed school sites.

# Finance and Facilities Working Group Charge

The Joint Committee to Develop a Master Plan for Education established goals and objectives for the Finance and Facilities Working Group in its August 2000 publication, *Framework to Develop a Master Plan for Education*. The overarching theme governing the work of the Finance & Facilities Working Group is to simplify the system of school finance. Two key features characterize simplification: First, the school finance system must be understandable by educators, policymakers, families and the general public. Second, the system must be rational, meaning it is aligned with the instructional, governance, and accountability structures of the public school system. Put simply, the system must make sense.

The goals for our working group fall into five major policy areas:

## **1. Assure Adequate Funding**

Determine an adequate level of resources necessary to provide each student with a high quality education. Characteristics of a system that provides adequate funding include:

- All educational agencies receive funds necessary to provide students with similar needs the services essential to meet those needs.
- Differing levels of resources are provided when needed to attain an equitable education for students with differing circumstances.

## **2. Distribute Resources Equitably**

Assure that resources are equitably distributed among educational agencies, so that students with similar needs are provided comparable levels of resources to meet those needs.

- Funds set aside for K-12 education are distributed equitably among local agencies.
- School districts distribute resources among schools in ways that assure individual student needs are equitably met.

## **3. Explore Local Revenue Options**

- Local revenues are raised to meet local priorities.
- Local revenues are generated in ways that preclude the development of wealth-based inequities in educational offerings.

#### **4. Allocate Revenues to Support the Effective Delivery of Services**

Establish appropriate methods of allocating funds to support the effective delivery of educational services. The Master Plan framework includes the following objectives in support of this goal:

- Provide incentives for the efficient and effective use of resources.
- Reduce state restrictions so as to support local flexibility.
- Foster a culture of assuring sufficient resources are provided to meet new expectations established by the state.
- Provide state support for school districts to operate with sound financial and management practices, and impose interventions when sound practices are not maintained. Accountability measures should apply to all participants in the process of budget development and management.

#### **5. Develop and Maintain Adequate and Appropriate Educational Facilities**

The Master Plan framework sets the following objectives in the area of school facilities:

- Establish high statewide standards for facilities to ensure that they are safe, clean, modern and conducive to learning.
- Share fiscal responsibility for new facilities and modernization among the state, local districts, and communities.
- Promote shared / joint use of facilities by schools, colleges and universities.
- Contain costs through measures that promote efficiency.
- Develop a plan to reduce and eliminate the maintenance backlog.
- Recognize ongoing maintenance as a local responsibility.
- Develop a system of accountability so the state can assure that standards are met. The system should include support, inspection and intervention when needed.
- Develop a statewide technology infrastructure to link educational entities.

# **A World Class Finance System for a World Class Education**

## **Part 1. Adequacy in School Finance**

The Master Plan framework envisions a fundamental change from a traditional focus in California on equality of funding – assuring that the majority of schools receive similar dollar amounts – to one of adequacy, where the essential components (personnel, materials, equipment, and facilities) necessary for an exemplary education are identified and provided. With this foundation of adequate resources for a high quality education, schools and students would be accountable for meeting established standards of achievement.

This part of our report explores the recent evolution of school finance policy toward the concept of adequacy, and looks at options for assessing the level of funding needed to provide adequate resources in California for a high quality education for all students.<sup>1</sup>

### **Background – average per-pupil funding**

Funding for the basic K-12 educational program in California is distributed in amounts that are similar for each student in the state. However, from the perspective of individual students, the cost for educational services received varies because the needs of each student are, to a greater or lesser extent, unique. For example, a teacher will spend different amounts of teaching time with one student compared to another. Therefore, the cost of that teacher's time will be distributed unequally among students.

Nonetheless, as noted above, schools do not receive differing amounts of money for every student. Instead, they receive an amount for each student that reflects an average of the costs of education across many students. This average per-pupil funding is provided at an organizational level appropriate for making decisions regarding the differential distribution of educational resources among students according to their individual needs. In California, the local education agency<sup>2</sup> is the basic organizational level at which most funding is allocated, and this per-pupil average funding level is embodied in the school district revenue limit.

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<sup>1</sup> We are indebted to the work of the Public Policy Institute of California (PPIC), which has prepared a series of essays at the request of the Joint Committee to Develop a Master Plan for Education – Kindergarten through University. Two papers, “The Concept of Adequacy and School Finance” by Heather Rose and “Towards Cost and Quality Models for California’s Public Schools” by Jon Sonstelie, provide a strong base for this part of the report. These papers and others are compiled in the PPIC publication, *School Finance and California’s Master Plan for Education*, 2001.

<sup>2</sup> Local education agencies receiving funding directly for the provision of a full range of educational services are generally school districts and county offices of education.

Issues of equity in funding for California's K-12 school system have focused on revenue limit funding, with both case law and public policy recognizing that average funding provided for the basic educational program should not vary significantly among school districts across the state. However, school district revenue limits, initially established on the basis of historical expenditure levels, may only incidentally relate to the per-pupil amount needed to provide adequate resources for a high quality education. While equalizing revenue limits over time toward a statewide average has established a relative measure of equity, adequacy looks to establish a more absolute measure of the resources necessary for a high quality education.

## **What is Adequacy?**

Consideration of adequacy rather than equity has allowed courts to focus on the concrete question of what resources are needed to provide the opportunity for a quality education to all students, and the extent to which those resources are actually being provided.<sup>3</sup> Lawrence Picus, chair of the Division of Policy and Administration at the Rossier School of Education, University of Southern California, notes that the courts have considered fiscal adequacy as early as 1979 (*Pauley v. Kelly*, West Virginia). Picus states: "...to be adequate, a school finance formula must provide sufficient money so public schools can teach all students – or at least all but the most severely disabled – to reach standards as established by the state and local districts."<sup>4</sup> In *The Concept of Adequacy and School Finance*<sup>5</sup>, Heather Rose notes that the concept of adequacy includes two distinct components: 1) school policy geared toward achieving high minimum outcomes for each student, and 2) a finance system focused on providing schools with resources that are sufficient to achieve those outcomes.

Finally, the National Conference of State Legislatures (NCSL) noted that, "State policy makers and the courts should apply the test of 'adequacy' as a primary criterion in examining the effectiveness of any existing or proposed state school finance system."<sup>6</sup> NCSL proposed basic principles for building an adequate education system, including (1) adopting clear and measurable educational goals and objectives; (2) identifying conditions and tools to provide every student a reasonable opportunity to achieve expectations; and (3) ensuring that sufficient funding is made available and used to establish and maintain these conditions and tools.

An effective system of school finance in California, then, must identify and allocate a specific level of funding that is appropriate to assure the availability of resources and tools needed for each student to achieve established academic outcomes.

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<sup>3</sup> Michael A. Rebell. *Education, Adequacy, Democracy and the Courts*. November 21, 2000.

<sup>4</sup> American School Board Journal, December 2001. "How Much is Enough?"

<sup>5</sup> Heather Rose. *The Concept of Adequacy and School Finance*. Public Policy Institute of California, November 2000, prepared for the Joint Committee to Develop a Master Plan for Education – Kindergarten through University.

<sup>6</sup> National Conference of State Legislatures, Task Force on Education Finance.

## **Approaches to Determining Fiscal Adequacy**

The Rose essay on adequacy reviewed the approaches taken recently by three other states to “...attempt to define and price an adequate education.” These states (Ohio, Wyoming, and Oregon) approached the determination of adequacy in education finance in different ways. The Finance & Facilities working group reviewed key elements of the work exemplified by these states, and recommends that the Legislature adopt a specific method, outlined below, to develop a California adequacy model.<sup>7</sup>

## **A California Funding Model**

Our review indicates that a quality education model, such as the one developed by the state of Oregon, represents perhaps the best available combination of research, data, and professional judgment with which to connect state-level spending to state-level improvements in the performance of students and schools. Modeling of this kind helps policymakers to know with greater reliability what level of funding is adequate to provide every pupil with an opportunity to meet adopted content and performance standards. It can also give legislators and others a clearer idea of how school funds are likely to be spent. Moreover, by enabling policymakers to identify and evaluate important trade-offs in the costs of providing statewide educational services, a quality education model can clarify the cost consequences of specific policy proposals. Finally, a quality education model would promote a healthy balance between local flexibility in the use of funds and accountability for results because it establishes a concrete and clear benchmark against which local choices can be compared.

Adoption of such an approach in California would mark a dramatic shift in the way this state has historically approached school finance. Educational resources would no longer be based on a system of relative equity in core funding among schools, irrespective of need, and supplemented by a dizzying array of “categorical” funding programs. Instead, a thorough review of our goals and clear identification of the resources needed to achieve them would put California in the position of developing a world-class financing system that will lead to and support a world-class educational system.

## **What is a Quality Education Model?**

Developers of quality models begin by asking a two-part question: What are the components of a quality education designed to permit students to meet state standards, and what do those components cost? This approach incorporates the professional judgment of expert practitioners and researchers as to what school features and “inputs”

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<sup>7</sup> For further elaboration and discussion of the approaches taken by these other states, see “The Concept of Adequacy and School Finance”, Heather Rose, Ch. 3 of *School Finance and California’s Master Plan for Education*; PPIC 2001.

are most associated with high student achievement of the kind envisioned by policymakers. Based on the quantities of these inputs and the prices that must be paid for them, the model calculates the cost of operating a hypothetical school meeting all the stipulated conditions for success. Once the costs per student of operating the hypothetical school are estimated, a statewide cost estimate is made by multiplying per student costs by the total number of students in the state.

The prototype schools are built from the ground up as the sum of their component parts: teachers, administrators, counselors, support staff, textbooks, supplies, maintenance, etc. For example, costs related to school-level staff (e.g. teachers, principals, support staff) are estimated as the number of staff multiplied by average salary. Centralized staff costs and non-staff costs are estimated on a per student basis, then multiplied by the number of students in the school.

Some components of existing adequacy models include:

- Specified class sizes of 15-20:1 in elementary grades and 25-29:1 in middle and high schools.
- Low student-to-computer ratios – for example, two or three students per computer.
- Established support staff ratios, such as one counselor per 250 students at middle schools and high schools.
- Additional instructional time for students based on need and/or motivation.
- Appropriate professional development programs/activities/requirements for all staff to ensure students achieve established standards.
- Dedicated staff for community outreach.
- Criteria for safe, adequate facilities necessary for a high quality education. For example, custodial staffing ratios averaging one custodian per 275 students to assure adequate daily facility maintenance and cleanliness.

In order for such a model to make reliable estimates, it is important that the costs placed on each component be accurate. Accurate cost estimates depend, in turn, on high quality data, appropriate cost estimation methods, and reasonable assumptions in cases where data are not available or are of poor quality.

Finally, a quality education model is not a prescriptive determination of what each school should look like. Rather, by using a model school approach, it documents a revenue level needed for each pupil in the state to achieve at high levels, while local school districts and schools are provided the flexibility to determine how best to use those resources to meet state standards. Although the revenue level determined by the model is based on the best judgment of the component resources needed to provide a quality education, local districts and schools are free to use that revenue in ways that may differ from the quality education model in order to best meet local needs. This flexibility comes with a responsibility to demonstrate that state standards are met through a system of accountability that links resources with appropriate conditions for learning and student outcomes.



## **Establishing a Quality Education Model for California**

### **Recommendation 1.1:**

We recommend that the Legislature direct the development of a California Quality Education Model, and use that model to determine an adequate level of funding necessary to support a high quality education for every student. In furtherance of this recommendation, we urge the Legislature to establish a 13 member Quality Education Commission, consisting of business, parent and education community leaders from throughout the state.

Replacing the existing school finance model will provide the Legislature with the critical education components, related resources and corresponding costs needed to provide the opportunity for every student to obtain a quality education based upon rigorous state standards. This will allow the Legislature to make more informed annual budgetary decisions about the level of resources available for education, and how those resources will foster a world-class education system. It will also provide the beginnings of a meaningful context for accountability within a framework of local control and flexibility over the use of educational resources.

The California Quality Education Commission will be charged with developing, monitoring and evaluating a prototype adequacy system. The Commission may establish, as needed, advisory teams comprised of successful practitioners, researchers and staff from all levels of the educational system with responsibility to provide the data and information necessary to allow the Commission to execute its charge.

## **Plan for Development of a Quality Education Model**

The following plan is illustrative of one possible structure and set of responsibilities for a Commission that would carry out this recommendation. The work is organized into two phases, one that is completed when a comprehensive Quality Education Model is developed, and a second phase that is ongoing to monitor and evaluate the application of this approach, to assess the adequacy of the resources provided to meet expectations inherent in the model, and to assure continued improvement of the model as part of a dynamic school finance system.

### **Phase 1: Commission Develops a Quality Education Model Prototype**

Timeline: 12 months

Proposed Structure and Scope of Work: The Governor, Legislature, and Superintendent of Public Instruction will appoint a 13-member commission consisting of business, education, parent and community leaders. Appointees will represent industry,

practitioners, administrators, researchers, and labor. The Commission is charged to develop a Quality Education Model, to include six parts:

1. An explicit description of the state standards for students, teachers, and schools that form the basis of the expectations upon which a Quality Education Model will be built.
2. A description of the components of prototype schools – at least one elementary, one middle and one high school – for which, if implemented, the Commission judges that the vast majority of students will meet state performance standards.
3. An estimate of costs for each of the components of the prototype schools, and a calculation of total costs per pupil. These estimates form the basis for determining an adequate level of support for public education.
4. Documentation that the Commission relied upon accurate available cost data, cost estimation methods, and reasonable and expert assumptions to develop prototype schools. The Commission will identify data gaps, modeling assumptions, and recommendations for near- and long-term improvement of the model.
5. An analysis of how the prototype school components and costs relate to the existing structure of school funding and categorical programs, with recommendations for a transition plan from the current system of school finance to one based on adequate allocations of per-pupil funding, local flexibility in the use of resources, and accountability for meeting state standards.
6. A description of the relationship among the Quality Education Model, the funding provided to support it, and the development of an effective system of local accountability for meeting expectations implicit in the Model.

The Commission's work and the Quality Education Model will reflect the policy goals and structure of the Master Plan for Education adopted by the Legislature. The Commission will be authorized to convene and consult expert panels for advice relating to research-based, best practices that are most associated with high student achievement. The Commission will assure that the form of the model fairly captures the diversity of California. A final report, comprising the prototype model and the commission's findings and recommendations, will be delivered to the Governor and Legislature within 12 months of formation of the Commission.

## **Phase 2: Monitoring, Evaluation and Refinement of the Quality Education Model**

Timeline: Continuous, beginning after the completion of Phase 1 and the adoption of the Quality Education Model.

Proposed Structure and Scope of Work: A Quality Education Commission is established as a standing body, with staggered appointments and ongoing responsibility for monitoring, evaluating and refining the Quality Education Model. The Commission's five objectives will be:

1. To continue to test the model's reliability, by evaluating the accuracy of the cost elements and assessing whether moneys are actually used to desired effect.

2. To refine the means with which to account for missing elements such as intangible factors or “quality indicators” that affect student achievement and for which data are not readily available.
3. To clearly identify the model’s assumptions, assess the validity of those assumptions, and improve their accuracy, especially by finding those resources and methods that successful schools embody.
4. To develop the state’s capacity to estimate and forecast such dimensions as the cost of the model’s implementation given model refinement, the growth of applicable revenues, the pace of implementation, and the effects of the model on student performance.
5. To generate recommendations for improvement of the state’s data-gathering systems.

Phase 2 puts into place an ongoing mechanism for continuous assessment and refinement of the model.

## **Conclusion**

We believe that a California Quality Education Model can be best realized through an adequacy approach that is well grounded in the practical considerations of determining the components of a quality education while also assuring local discretion to make choices that will meet the needs of students and communities. We believe this will provide a sound base upon which California can rest its future efforts to assure a high quality education for all students. For these reasons, we recommend that the Legislature embrace a fundamental change that moves from the current equity-based school funding system to one that is predicated upon principles of adequacy – an approach that will clearly establish a strong basis for providing the funds necessary to support a world-class education system.

# Distributing Resources Equitably

## Part 2. Categorical Program Adjustments

Part 2 of our report investigates factors that justify differences in the amount of education revenues provided to local educational agencies for instructional and related services. These factors fall into two major categories: 1) District characteristic adjustments to account for differences in the costs of education that are beyond the control of local school administrators, and 2) Student characteristic adjustments, provided in recognition of specific needs or factors that call for additional services to make high quality educational opportunities for all students a reality. We also propose consideration of a third category, specifically for funding new initiatives that may be appropriately targeted to unique circumstances of individual districts and to evaluate new ideas prior to statewide implementation<sup>8</sup>.

### Background

California school finance has a long history of providing adjustments to base revenues for schools in recognition of special needs and conditions. While some adjustments are included in the calculation of school district revenue limits, most are provided through separate funding streams commonly referred to as categorical programs. California currently has many categorical programs, ranging from class size reduction to textbooks to tenth-grade counseling. Some categorical programs are large and some are very small, both in terms of dollars and number of students served. An individual student may receive benefit from many different categorical programs, each with its own unique set of administrative requirements and funding restrictions. Coordinating services to students through this categorical structure can be administratively intensive and cumbersome.

### Purpose of categorical programs

Categorical programs provide resources to accommodate differences in student needs, to meet selected state policy goals, and to spur reforms in the delivery of educational services. We support appropriate categorical programs and the purposes they serve. California is a very diverse state, and that diversity reflects differences that must be addressed by targeting funds to selected districts and students. Further, need-based differentials are recognized constitutionally and the courts have affirmed the appropriateness of recognizing differences in funding based on students needs.

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<sup>8</sup> PPIC essays on *Teacher Salaries in California* (Kim Rueben and Jane Leber Herr) and *Resources and Student Achievement: An Assessment* (Julian Betts and Anne Danenberg) have been invaluable in assessing this component of an adequacy model, as well as the extensive work presented in the Texas report, *A Study of Uncontrollable Variations in the Costs of Texas Public Education*.

## **California's experience**

However, California hasn't limited itself to establishing categoricals to address student needs and district differences. Instead, over 80 different categorical programs exist today, some very narrowly focused. Examples include a variety of hourly funded programs for summer school, after school, remediation, proficiency and other purposes, funded at different hourly rates.

Our many categorical programs segregate funding into dozens of "pots" for the typical school district. They are often administratively cumbersome, separately developed and independently approved by a higher agency. Categoricals have a wide range of purposes, some to respond to historical differences in needs, and some provided in response to unique circumstances, such as the effects very large or very small school and district size. If you can name a purpose, it likely has a categorical program associated with it.

Added over a course of years without a master plan, categorical programs have become a hodgepodge of funding sources, often responding more to momentary needs of politicians or the insistent demands of special interest groups. Further, legislative committees have no guide for what a good or a bad categorical program may be – no way to sift legislation through a common "strainer" with a rational rubric.

## **Impact**

The proliferation of categorical programs has had a large impact on school finance in California.

- Categorical program funding now accounts for a high percentage of district total revenues, a trend that continues to grow.
- Funding is often targeted to very limited areas, with high administrative accountability, and narrow or restricted use of resources.
- High administrative costs result because of narrow focus and inflexible uses.
- There is no common delivery system; instead, diverse and arbitrary rule differences governing categorical program administration prevail.

We believe that categorical programs cry out for reform.

## **Proposal**

The Finance & Facilities working group proposes that all operational funding for K-12 education be grouped within four classifications: (1) base "adequacy" funding, (2) district characteristic adjustments, (3) student characteristic adjustments, and (4) initiative funding. Categorical programs that do not fit within categories 2 through 4, above, will be folded into the general purpose funding provided through the adequacy model.

## **Reforming Categorical Adjustments**

The Finance & Facilities Working Group reviewed literature and research on price adjustments and differential factor adjustments in search of options for improving the traditional cornucopia of highly differentiated categorical programs. Our assessment leads us to not recommend to the Legislature at this time the use of factor adjustments based on calculated price differences. Such adjustments are complex in their derivation, with theoretical equity subject to the practical limitations of data available at an appropriate regional scale. In addition, such adjustments have not avoided many of the shortcomings of traditional categorical programs, including the appearance of a certain amount of subjectivity in their application<sup>9</sup>.

Instead, the working group recommends simplifying the existing categorical structure by considering the use of only three broad categories of adjustments.

### **District Characteristic Adjustments**

Like many other states, California currently makes certain adjustments to school district funding based on geographic differences. Examples include rural transportation funding adjusted for sparsity and weather-related factors, and scale adjustments for small schools and districts.

#### **Recommendation 2.1:**

The Finance & Facilities Working Group recommends that the school finance system recognize a limited set of differential costs, primarily geographic in nature, that are not under the control or influence of the school district, by establishing a District Characteristic adjustment. The additional revenue provided to school districts in recognition of these uncontrollable cost factors would result in similar levels of real resources.

We also recommend that the Legislature designate the California Quality Education Commission to assess the advisability of a broader application of other price factors within District Characteristic adjustments as part of its charge to develop an adequacy-based school finance system (see Appendix A).

### **Student Characteristic Adjustment**

The circumstances of students that affect achievement, and the resources needed to ameliorate those circumstances, should be incorporated into the school finance system. However, historically, determining the best funding adjustment in response to differing

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<sup>9</sup> See Appendix A for our review of price adjustments.

student characteristics has been more art than science. The national and state-level evidence on the relationship between school resources and student achievement is reviewed in *Resources and Student Achievement: An Assessment* (Betts and Danenberg)<sup>10</sup>. Their review notes that most studies show at best a weak relationship between resources and achievement, especially when compared with the strength of the association between student performance and socioeconomic status found in recent research based on California data. Nonetheless, that research does show a modest association between gains in student performance and teacher qualifications related to education, experience, and full credentialing.

Applying the results of this research to a simulation of the benefits of improving teacher resources at low-performing schools, Betts and Danenberg found that raising teacher characteristics to the 90<sup>th</sup> percentile level for teacher qualifications statewide would reduce the achievement gap by about one-third. The gap, as measured between median (50<sup>th</sup> percentile) and low achieving (25<sup>th</sup> percentile) schools is 15 percent or more for national scores in both reading and math. The analysis indicates that increasing teacher qualifications in low performing schools may result in a reduction of that gap to less than 10 percent.

Based on spending patterns at those schools currently employing the most qualified teachers, such a change would cost approximately \$300 per student. As the report notes, this estimate may significantly understate the actual cost of recruiting the most qualified teachers to teach in low-performing schools. It does, however, provide a starting point for considering incentives and other methods for bringing more qualified instructors to the schools most in need, and shows some evidence grounded in research that such a change would result in narrowing of the student achievement gap.

### **Recommendation 2.2:**

Therefore, the Finance & Facilities Working Group recommends that the Legislature include in the California school financing system block grants for allocation to school districts on the basis of student characteristics that mark the need for additional educational resources. Further, we strongly suggest that the adjustments in this category be limited to additional funding for (1) special education, (2) services for English language learners, and (3) resources provided in recognition of the correlation of family income level with student achievement. New programs in these areas would be tested and implemented through an initiatives process, described below.

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<sup>10</sup> Julian Betts and Anne Danenberg, *Resources and Student Achievement: An Assessment*, Public Policy Institute of California, March 2001.

## **Initiatives**

The proliferation of categorical programs in the California system of school finance has, in part, resulted from well-intentioned ideas that were implemented statewide before the resulting programs had been tested for effectiveness. In addition, categorical programs have been established to meet real, but temporary, needs with no clear process for ending them. To address these issues, we make the following recommendation:

### **Recommendation 2.3:**

The Finance & Facilities Working Group recommends that the Legislature establish a category of grants that will be clearly identified as initiatives. These initiatives will be limited in duration, and will serve one of two purposes:

- Pilot and evaluate proposed new programs before they are implemented statewide. Once implemented statewide, the funding for such a program would be consolidated into the base funding for schools, or one of the two major categories of adjustments – student characteristic and district characteristic.
- Meet immediate, but temporary, needs for additional funding targeted to specific districts to mitigate the effects of transitory, but possibly unforeseen, shocks to the instructional program. For example, funding provided for programs specifically targeted to reduce the number of emergency permit teachers would be a high priority, but presumably time limited, effort.

The table on the following page demonstrates how the major categorical programs might be allocated among the four categories we are proposing.



<b>Program</b>	<b>Adequacy base</b>	<b>Student</b>	<b>District</b>	<b>Initiative</b>
Revenue Limit <sup>11</sup>	X			
Adult Education <sup>12</sup>	N/A			
Beginning Teacher Salary	x			
BTSA			x	
Child Development, Preschool	N/A			
Child Nutrition	N/A			
Class Size Reduction, primary & secondary, CSR facilities <sup>13</sup>	x			
Community Day Schools		x		
Deferred Maintenance	x			
Desegregation		x		
Dropout / High Risk Youth Programs	x			
Drug/Tobacco Prevention	x			
Educational Technology	x			
EIA		x		
GATE	x			
Healthy Start				x
Instructional Materials <sup>14</sup>	x			
Peer Assistance & Review	x			
Miller-Unruh Reading	x			
Opportunity Programs	x			
Partnership Academies <sup>15</sup>				x
Pupil Testing	x			
Reading Initiative	x			
Reading materials, K-3	x			
ROC/P	N/A			
SIP	x			
Special education <sup>16</sup>	x	x		
Targeted truancy, public safety				x
Tenth Grade Counseling	x			
Transportation			x	
Year-round school incentives				x

<sup>11</sup> Revenue limit add-ons should be reviewed separately and assigned to appropriate categories.

<sup>12</sup> N/A indicates major categorical programs that would not be consolidated into one of the four groupings proposed in this paper.

<sup>13</sup> We would propose to streamline CSR now, and consolidate funding into the adequacy base in the future.

<sup>14</sup> Propose standards and accountability system used to assure student instructional materials needs are met.

<sup>15</sup> Partnership Academies to phase-out as initiatives, but we propose funding High School Innovation grants through the initiative process.

<sup>16</sup> Identify low-incidence and severely disabled student funding separately; remainder goes into the adequacy base.

## **A Note on Accountability**

We recognize that categorical consolidation provides greater local flexibility in the use of funds, but will also require high accountability to assure that funds are used effectively. Until such an accountability system is in place, it may be difficult to consolidate some categoricals. For example, instructional materials funding is currently restricted for use only to purchase approved instructional materials and equipment. Under our proposal, this funding would become part of the base adequacy funding. No separate funding formula would be needed to allocate dollars for instructional materials, and schools would be free to use this base funding with broad discretion. At the same time folding instructional materials funding into the base runs the risk that California's goal of adequate instructional materials for all students won't be realized. Before a program such as this is added to base funding, there needs to be a strong accountability system in place.

## **Controlling the Proliferation of Categorical Programs**

As noted in the introduction to this section, the Legislature does not have a consistent rubric for evaluating newly proposed education initiatives. We believe, however, that consistent criteria for adoption of new initiatives would serve both the Legislature and the education system well. Therefore, we make the following recommendation:

### **Recommendation 2.4:**

We recommend that the Legislature adopt specific guidelines and criteria for the Legislature to use in evaluating proposed initiative programs. We believe that, similar to the process used for consideration of mandated cost claims, it would be possible to develop sound criteria, such as the following:

- Avoid establishing programs with separate or unique administrative controls or supervision, which result in high costs.
- Assure a goal or delivery focus, not a process focus.
- Establish approval, oversight and supervision as close to the local agency as possible. This would call for regional rather than state responsibility.
- Do not make an initiative a substitute for accountability.
- Use regionalized service delivery wherever appropriate. Examples include low incidence services, specialized programs and high cost programs.
- Establish reasonable implementation and sunset timelines for new initiatives.
- Assure that each new initiative is reviewed and assessed by the Quality Education Commission with the same rigor as any educational component that would be included in the Quality Education Model.

Finally, we make two additional recommendations to improve practices for the implementation and administration of new initiatives.

## **Model Delivery and Model Budgeting**

### **Recommendation 2.5:**

We recommend that sufficient funding be provided for state agencies, or other appropriate entities, to develop material describing best practices for the administration and delivery of categorical programs. This includes the development of standardized cost models that local agencies can use to assess implementation of the program. Several alternative approaches should be developed, any one of which would meet the goals of the program.

## **Improving Administrative and Supervisory Controls**

### **Recommendation 2.6:**

We recommend that every new initiative program have a comment period on all administrative and supervisory controls proposed by the administering agency. Alternatively, an advisory committee representative of those agencies that must administer the program may be used to develop administrative guidelines.

# Linking the Community and the School: Raising Revenues Locally

## Part 3: Exploring Local Revenue Options

### Introduction

Under the current system, the State of California is the funding agent for any increase in K-12 Proposition 98 revenues<sup>17</sup>. This places significant added pressures on the state and has the effect of giving the Capitol strong control over the delivery of educational services and programs. Local control is whittled down to a limited form since local agencies are not the funding agent for added revenues.

Under the current system, the state raises and provides revenues for local education, and local school boards and agencies make decisions on how to spend those revenues. This divided authority muddles accountability. The state lawmaker must face the electorate for taxing decisions while the local official can easily claim that “the state” is not doing enough to meet minimum educational needs. Sometimes the conflict becomes very visible: schools cry “foul” since they are dependent on others for income, and state lawmakers cry “foul” when expenditure decisions of local agencies do not match their vision of how education dollars should be spent.

Finally, under the current system, any local responsibility for adding optional education programs – and raising the funds for those options – is lost. Local agencies do not have a realistic opportunity to make decisions to increase local taxes for the addition of local programs. There is no realistic option for a local agency to tax itself for support of a local program. The accountability inherent in public representatives raising taxes for public education and then standing for election based on that decision is no longer available to California’s school governing boards and communities.

As stated in the *Framework to Develop a Master Plan for Education*, we share the belief that school district governing boards can be more responsive to local educational needs and priorities, and can be held more accountable by local electorates for programmatic decisions, when they are able to generate revenues locally and can demonstrate a direct connection between a revenue source and specific educational services. The framework establishes the following parameters for review:

- Options should be explored that permit school districts to develop additional revenues to support programs and activities they wish to offer in addition to the high quality education that is guaranteed by the state; and,

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<sup>17</sup> Local property tax revenues account for nearly one-fourth of total school funding, and often a much larger share of annual increases. However, as discussed later in this section, property tax revenues for schools are under state, not local, control and simply offset state General Fund requirements for increased education spending.

- Any new local revenue options must be generated or shared locally in accordance with state-defined parameters, which preclude the development of significant inequities in the level of educational offerings provided to students.

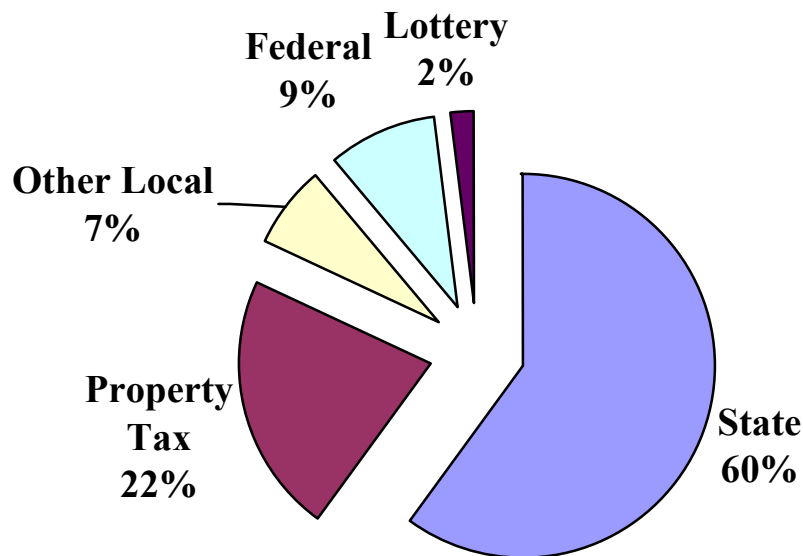
This part of our report explores the viability of local revenue options for school districts.

## Background

Historically, the ad valorem<sup>18</sup> property tax was the single largest source of support for K-12 schools. In 1975, property taxes accounted for more than two-thirds of all school district revenues. Property tax rates were determined locally with voter approval. Therefore, the communities of local school districts held significant discretion over the amount of funding that would be made available to the schools through a self-imposed property tax assessment. Local revenue raising authority was matched by a local governance structure, with school boards elected by and from the same communities that approved the level of fiscal effort in support of their schools.

School finance equity litigation (Serrano) and a property tax limitation initiative (Proposition 13) provided impetus for dramatic change in the structure of school finance in California. The state responded by assuming responsibility for funding the schools, and, as chart 1 shows, state resources came to provide the bulk of support for K-12 education.

**Sources of revenue for K-12 education<sup>19</sup>**  
(Chart 1)



<sup>18</sup> A tax assessed on the basis of monetary value.

<sup>19</sup> Data: Legislative Analyst, *2001-02 Budget Analysis*, 1999-2000 budgeted revenues.

While nearly 30 percent of public school funding still comes from local sources, K-12 schools now have very limited ability to raise revenues locally. The bulk of “local” revenue in the current financing system comes from the local property tax, and property tax revenues allocated to local school districts are a dollar-for-dollar offset to state aid. In fact, in lean budget years, property tax growth often accounts for the majority of new “state” money provided for K-12 education programs. Finally, property tax rates are set by constitutional and statutory provisions not subject to local control.

Currently, school districts can receive locally raised revenue through a few previously authorized special taxes. School districts can, with approval of the electorate, impose a parcel tax and they can participate in a local sales tax through a local public finance authority. Schools raise funds locally through foundations and other parent-centered fundraising. While these sources of revenue may be significant for some school districts and schools, they are limited in their application across the state.

## **Why a local revenue option?**

There are many compelling reasons to once again establish meaningful local revenue raising options for school districts:

- Authority to raise revenues locally and to allocate those revenues for local discretionary uses will encourage and strengthen local responsibility and accountability.
- School district governing boards could more easily respond to local educational needs and priorities if local revenue-raising options were available. They can demonstrate a direct connection between a revenue source and specific educational services, and can be held more accountable by local electorates for programmatic decisions.<sup>20</sup>
- Educational needs that are unique to communities can be best financed through locally approved and derived revenue sources. This would reduce pressure on the Legislature to address through state-level action the unique circumstances of individual school districts. Even some needs closely related to state interests may best be funded locally, where an expansion beyond current program levels is a priority within a local community.<sup>21</sup>
- Local revenue raising capacity is high. California is near the top (4<sup>th</sup>) nationally in state tax revenues, and near the bottom (47<sup>th</sup>) in local revenues when compared with other states.

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<sup>20</sup> *Framework to Develop a Master Plan for Education*

<sup>21</sup> Sonstelie, *Is There a Better Response to Serrano?*

## Keeping the “Local” in Local Revenues

It is critical to recognize that a meaningful local revenue option must link local revenues to those purposes that are best developed and resourced locally. In particular, we would caution that local revenues raised from an optional tax must not become a means of mitigating inadequate basic educational funding that is a statewide responsibility. Rather, revenues raised from a local option tax must be available wholly at local discretion to augment all other funds received for the educational program.

## Evaluation Criteria

The working group identified specific criteria to assist it in evaluating four different local revenue options:

- *Is this a revenue source that can provide a meaningful increase to school district revenues? (Tax yield)* A broad-based tax with the potential for relatively high yields for a given tax rate is desirable.
- *How sensitive is this revenue source to the economic cycle? (Stability and dependability)* Is the revenue source stable and dependable? High stability, or low sensitivity to the economic cycle, is desirable.
- *Who pays the tax, and who benefits? (Tax and expenditure incidence)* On whom does the burden of the tax fall? Is the tax progressive or regressive in its application? Do the taxpayers benefit from the revenue raised for the local public schools?
- *How much do revenues raised from similar tax rates differ among communities? (Tax yield neutrality)* Related to incidence, this factor recognizes that few tax sources are yield or wealth neutral. How much state equalization aid would be required to equalize local fiscal effort?
- *How easily can tax revenues be collected? (Administrative feasibility)* Can local revenue be collected and distributed using existing administrative structures, or would new structures need to be developed? Can the tax be administered efficiently and effectively, with a high degree of voluntary compliance?<sup>22</sup>
- *To what extent would the imposition of the local tax distort taxpayer behavior? (Economic efficiency)* Achieving satisfactory yields should not become a cause for taxpayers to change their behavior so as to avoid the tax.

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<sup>22</sup> See Elizabeth G. Hill, Legislative Analyst, *California's Tax System – A Primer*, January 2001, to reference criteria for a well designed tax system.

- *How closely does the revenue source correspond to district boundaries and relate to the education community? (Association)* The linkage between the school board, the schools, the electorate, and the payers of the tax should be direct, rational and understandable.
- *Is the tax deductible?* A tax source that is federally deductible may be more attractive to taxpayers because it will be partially offset by a reduction in other tax liability.

## **Options considered – description and proposed recommendations**

The working group has considered four local revenue options, and assessed each against our evaluation criteria: The parcel tax, the sales tax, the ad valorem property tax, and the income tax. We are recommending that the Legislature consider three levels of commitment to local revenue options, each corresponding to one of the three tax options we are recommending<sup>23</sup>. The three levels represent our assessment of the perceived or actual degree of change necessary to implement our recommendations. The first option we present, a modification to the parcel tax, represents what we believe would be a relatively small step beyond current practice. The third and last option, amending the ad valorem property tax, would require a change to constitutional and statutory provisions adopted through Proposition 13, and so is likely to represent a much more substantive change.

### **The Parcel Tax**

Since the enactment of Proposition 13, school districts have been authorized to levy a parcel tax with approval of two-thirds of the voters. However, the parcel tax is used in only a small number of school districts – a total of 48 school districts (<1%) levied a parcel tax in 1998-99. Moreover, a review of successful parcel tax elections shows that the parcel tax has been approved primarily in school districts with higher income, well-educated families. In those districts that have adopted parcel taxes, the average revenue exceeds \$500 per pupil. Districts with predominantly lower income families tend to be less successful in gaining approval of parcel tax proposals.<sup>24</sup>

In successful districts, implementation of the parcel tax varies. In addition to a single, fixed assessment per parcel, some districts have adopted parcel taxes with differential rates for residential and commercial parcels (Davis Unified School District). Other districts have adopted parcel taxes based on a per-square-foot assessment (Berkeley and Albany unified school districts). Specific exemptions, such as senior

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<sup>23</sup> The optional local income tax surcharge is discussed in Appendix B. Based on our review, we believe that the personal income tax is not a viable option for local school funding.

<sup>24</sup> *School Finance and California's Master Plan*, Chapter 9, "The Parcel Tax". p. 190.



citizens, have been granted, and annual automatic COLA adjustments have been provided. Most, but not all, parcel taxes have a time limit, when the school district must return to the voters for reauthorization. All parcel tax referendums state the purposes for which the revenue may be used. Parcel tax revenues for a given assessment can vary among communities, in that districts encompassing more parcels of land can raise more revenue for a given parcel tax rate than other districts with fewer parcels.

Although in limited use now, we believe that the parcel tax may be among the most viable local revenue options for school districts at this time, for the following reasons:

- The parcel tax is authorized for school districts under existing law and constitutional interpretation.
- Parcel tax yields are proven to be robust, based on the experience of those districts that have successfully adopted parcel taxes.
- Revenues are resistant to fluctuations caused by the economic cycle because the parcel tax is not value or income based.
- Incidence can be balanced by establishing different rates for residential and commercial property. Regressivity can be mitigated by the use of assessments based on square footage, and specific exemptions.
- Tax yield neutrality can be assured through equalization formulas.
- Existing local agencies can administer the tax.
- Because quality schools and high property values are closely linked, taxpayer behavior is less likely to be negatively influenced by the imposition of a parcel tax.
- Property-based taxes are more directly associated with local schools than any other revenue source.

Of the 128 parcel tax elections that failed to achieve a two-thirds majority vote, 87 (68 percent) were approved by a margin of 55 percent or better of the voting electorate. Recent electoral support for local school facility bond measures based on a 55 percent threshold lead us to believe that public support for schools is strong. Therefore, the working group recommends that a Constitutional amendment be considered:

**Recommendation 3.1:**

Approve a ballot initiative to reduce the voter approval threshold for parcel taxes from two-thirds to 55 percent.

## The Sales & Use Tax

The sales and use tax (SUT) is the second largest tax levied in California, with revenues totaling \$32 billion annually. Levied at both the state and local levels, three-fourths of the revenues accrue to the state and one-fourth to local government. A component of the sales tax is a local option levy, which causes sales tax rates to vary by county, ranging from 7 percent in those counties with no local levy to a high of 8.25 percent.

California has a high SUT rate when compared with other states, but because of its many exemptions SUT revenues per \$100 of personal income are slightly below the national average. The SUT has been a reliable and stable tax with relatively good growth. However, the SUT has represented a declining share of personal income over the past 20 years, which may raise questions about its long-term viability.<sup>25</sup>

The portion of the SUT that can be levied at local option is used in just 24 of 58 counties. Local option levies cannot exceed a total of 1.5 percent, and currently range from 0.125 to 1.25 percent. They can be adopted by counties, cities and special districts, for use to fund local programs in transportation, public libraries and other services, including public education. The largest use of local option SUT levies supports transportation projects. Our review shows the following characteristics that support the sales tax as a local option for school districts:

- The sales tax is robust; each ¼ cent increase yields more than \$1 billion dollars statewide.
- Administration is straightforward on a countywide basis because it can be collected and distributed through existing agencies.
- The sales tax does not have a high association with schools, and may be paid by taxpayers who have no relationship to the schools it supports.

However, the sales tax also is less desirable for several reasons:

- The sales tax is sensitive to the economic cycle, subject to a falling share of expenditures on tangible (taxable) goods with a shift toward non-taxed services. The sales tax is regressive, somewhat mitigated by statutory exemptions.
- May affect consumer behavior if a higher sales tax rate encourages consumers to cross county boundaries to lower tax environments without inconvenience.

Although a local option SUT levy can currently be proposed and approved for the benefit of public education, the process has not been conducive to widespread use by the schools. Therefore, we make the following recommendation so that schools can put

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<sup>25</sup> E. Hill. *California's Tax System – A Primer*, January 2001.

directly to local voters a sales tax increment increase to support public education in their community.

### **Recommendation 3.2:**

- Authorize school districts in counties where a majority of school districts wish to join together, to propose to the electorate a sales tax increase, within the local option SUT levy limitation, to take effect with the approval of 55 percent of the voters in a countywide election. Revenue would be divided among the schools on a population (per pupil) basis, or as delineated in the tax measure.
- Provide for a state guaranteed tax yield to assure each county could raise the statewide average per-pupil amount that would be realized through the imposition of a given tax rate.

## **The Property Tax**

The ad valorem property tax accounts for nearly one-third of all tax revenue accruing to local governmental agencies. Statewide, more than half of property tax revenues are allocated to support K-12 schools, but the specific percentage among counties varies widely across the state due to historical differences in the local distribution of property taxes. Property tax distributions among local governmental entities have been set by the state since the voters approved Proposition 13 in 1978. This tax initiative severely limited the ability of local governments to raise revenues through the property tax, by (1) setting the countywide tax rate at no more than 1 percent of assessed value<sup>26</sup>; (2) allowing local reassessment of real property only upon resale, based on the sale price; and (3) limiting annual growth in assessed value to 2 percent. In addition, as noted earlier, the state response to *Serrano* incorporated local property tax revenue to schools as a dollar-for-dollar offset to state general-purpose aid. In essence, then, local property taxes are no longer subject to control by the local electorate and the school's share of those taxes simply supplements state-established per-pupil funding levels for the schools.

Nonetheless, based on our evaluation criteria, the property tax arguably provides the best source of local revenues for schools:

- Local residential and commercial property values provide a broad base to raise revenues.
- Historically, property taxes have been a stable source of revenue, less sensitive to economic cycles.

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<sup>26</sup> Additional tax levies are authorized for local voter-approved general obligation debt.

- The ad valorem tax is value based, and so is less regressive than the parcel tax.
- A property tax is easily administered by existing tax collection agencies.
- Any potential disincentive to property buyers due to higher local taxes is offset by the increased attractiveness of property in areas with high quality schools.
- Because of the natural relationship between property owners and the local schools in a community, the property tax has high association among the school district, school board, electorate and taxpayers.
- Equity, so that similar revenues would be raised with similar fiscal effort among different communities, can be supported through a fiscal “power equalization” formula.

Since Proposition 13 established its key provisions in the state Constitution, a Constitutional amendment would be required if the property tax were to again become a viable option as a discretionary local revenue source for schools. If the Joint Committee believes that this option is politically viable, we recommend consideration of a proposed Constitutional amendment:

**Recommendation 3.3:**

- The Legislature approve a ballot initiative to amend the Constitutional provisions governing the property tax to authorize school districts and other local public educational agencies to propose for approval by the electorate, with 55 percent of the voters concurring, a property tax override for the exclusive use of the public schools in the community.
- Assure a minimum, state guaranteed yield per pupil through state financial assistance to communities where a self-imposed tax rate does not yield the minimum state-determined per-pupil amount for that rate.

# **Program Effectiveness and Accountability**

## **Part 4. Allocating Revenues to Support the Effective Delivery of Services**

The development of a Quality Education Model, the streamlining of categorical programs, and accountability for student learning must be closely linked if the goals of the Master Plan are to be realized. The logic of the adequacy model recommended by the Finance and Facilities working group is that districts should, in developing their priorities for funding, always keep in mind the inputs required for high levels of learning consistent with state standards. The streamlining of categorical programs requires a mechanism to ensure that funds are spent on minimally adequate resources, in order to assure student outcomes. The greater local flexibility in the use of resources envisioned in this report must therefore be accompanied by both recognition of the resources necessary to achieve California's educational goals and a rational accountability system.

Therefore, the state should establish minimum standards of education, defined in terms of both inputs and outputs, which are targets for districts to meet. If they fail to meet these targets, then they must develop plans to meet them within a reasonable period of time — defined here as three years. Since accountability for conditions of education and results begins within the community served by schools, the goals, plans and achievements of districts and schools must be public. The minimum standards will therefore be matters of public record, as will be the district's plans to meet these standards if they fall short. Any group of citizens must have ready access to information about whether or not a district meets these standards, with a process in place that may trigger external actions to rectify sub-standard conditions. Finally, over the long run the further development of the Quality Education Model, and the resources necessary for its implementation, will be driven by an assessment of the conditions of education and resources revealed by this accountability system. This process closes the circle: the Quality Education Model generates input and output standards, which in turn serve as targets for districts and schools, which provide information to citizens and others on their ability to meet these standards, which in turn may serve to modify the Quality Education Model in the future.

An effective accountability system should, therefore, include:

1. A set of state standards, defined in terms of both inputs and outcomes
2. A consistent system and format for reporting the inputs and outcomes required by state standards on a school-by-school basis, in a standard format allowing comparison among schools, with a process to certify compliance with state minimum requirements.

3. Procedures for reviewing school and district performance under state standards including information for public review and a process for local complaints to trigger a mechanism of external review of district and school performance.
4. The development of an on-going process for evaluating and refining the Quality Education Model in the light of information from district and school performance.

We review each of these components in turn.

## **A set of state standards**

Many of the components of the Quality Education Model are educational inputs, like pupil:teacher ratios, and an effective system of accountability must include standards that are based both on inputs and outcomes like those now included in the Academic performance Index (API).

### **Recommendation 4.1:**

Therefore, we recommend that the Legislature continue to emphasize the development of performance standards, and that those standards be based both on key inputs to the educational system, as well as outcome measures, and that the input standards are aligned with the California Quality Education Model.

## **Inputs**

The reasons for the inclusion of input measures is that some aspects of schools — for example, the provision of minimally adequate and safe facilities, and access to a curriculum of sufficient breadth — should be considered basic requirements of all districts and basic rights of all students, whether or not they influence outcome measures. Outcome measures may therefore be insufficient to reflect attainment of these basic requirements and rights, and therefore input standards are needed as well.

We propose input standards of two types. The first, which we call *guidelines*, would be used as a model against which a district could compare its own expenditure choices. The elements in these guidelines would be based on the proposed Quality Education Model that generates funding levels in California. In determining its own expenditures, a district or school could assess the trade-offs involved in a local budget, and explain them to the public. This would allow a local school district or school to make choices that depart from the elements of the Quality Education Model, but it would also challenge district leaders to provide clear rationales for their choices. It would also give the public an informed basis for judging the district leadership's decisions. For example, if the Quality Education Model includes pupil:teacher ratios of 1:20 as the basis for funding districts, this 1:20 ratio would become the state's *guideline*, but districts could choose to use higher or lower ratios as long as they are able to justify their decisions.

The second set of input standards would establish *minimum requirements* for all districts and schools, which they could not fall beneath under any conditions. For example, if the Quality Education includes a funding provision based on a teacher:pupil ratio of 1:20 for elementary schools, then this would serve as a guideline for districts in the first set of standards; but the state would in addition specify a minimum requirement of, say, 1:25 below which no district or school should fall. The state's guideline is presumably that no teacher should have an emergency credential, but in addition the state minimum requirements require that no more than 5% of teachers in any district or school be on emergency credentials. The combination of *guidelines* and *minimum requirements* therefore provides districts with flexibility in devising their priorities for spending, while also protecting students by establishing certain absolute minimum requirements.

We therefore recommend that the development of the Quality Education Model, in addition to specifying the funding elements of the Model that constitute a set of guidelines, also specify a set of minimum standards that all districts and schools must meet. The guidelines and minimum standards might cover the following:

1. Ratios for teachers, counselors, and other kinds of staff, and standards for the use of teachers and others with emergency credentials.
2. Professional development opportunities sufficient to prepare teachers to teach to state standards;
3. The provision of additional opportunities to master the state's standards by low-income students and English language learners in districts that receive additional funding on behalf of these students.
4. Evidence of compliance with the laws and protections appropriate and legally required to serve the needs of special education students.
5. For high schools, the full roster of courses necessary for meeting high school graduation requirements and requirements for eligibility to the University of California and the California State University, or provisions for providing such courses in nearby schools or community colleges.
6. Access to the full curriculum necessary to meet state standards in all middle schools and elementary schools.
7. Adequate textbooks and other instructional materials, such that students have access to up-to-date textbooks aligned with state standards.
8. Adequate facilities including classrooms, bathrooms, labs and workshops, and food facilities, meeting standards established by the state.

## **Outcomes**

Output standards are intended to provide targets and incentives for schools to improve their programs and teaching so that all students achieve at adequate levels. The state has started the difficult task of establishing output standards with the Academic Performance Index (API) and the incorporation of both the norm-referenced SAT-9 and criterion-referenced Standards Tests into the API. This working group recommends that the state continue its efforts to develop a robust and meaningful set of student performance measures based on the state's standards, and then to incorporate them into the accountability system. It bears repeating that such a system must be aligned with the

state's academic content standards; incorporate multiple measures, including those related to progress through the education al system as well as to learning; articulate clear and appropriate standards for student, school and district performance; and be regularly re-examined for effectiveness, accuracy, fairness.

In addition to establishing an Academic Performance Index that is based on these criteria, the state should also re-examine the incentives and disincentives associated with performance on the API. The current system of incentives lacks transparency, or the ability of all participants to understand precisely how their efforts in improving learning will be rewarded; and the rewards and punishments now have counter-productive effects, for example when low-performing schools have resources taken from them while high-performing schools are rewarded. A more appropriate set of responses to exceeding or failing to meet state outcome standards might include a subtle combination of recognition for high-performing schools and technical assistance for low-performing schools, rather than crude fiscal incentives and disincentives that may not operate as intended.

In summary, then, in return for providing school districts with greater flexibility in the allocation of funds, the state will hold districts and schools accountable for justifying their fiscal decisions against a set of state guidelines, to meeting a clear set of minimum requirements, and for focusing on a variety of student outcomes described in a broadened Academic Performance Index.

## **A consistent reporting system**

The state's accountability system creates a set of guidelines, minimum input requirements, and outcome goals for districts and schools, but the interpretation and review of district and school plans for education should be up to local communities. In order to understand what districts and schools are doing, parents, community groups, and others interested in education must have information in a form that they can readily understand.

### **Recommendation 4.2:**

We therefore recommend that the state establish a consistent and straightforward way for local schools to describe their expenditure and programmatic decisions, to compare them with the state's guidelines, minimum standards, and outcome goals, and to clarify the trade-offs implicit in budget decisions.

Each district will annually prepare a report describing whether they meet each of the input and output standards, for each of the schools within a district. If the district does not meet one or more of these standards, they will present a plan for meeting such standards within a three-year period. This report should be presented at a public meeting of the district's board and citizens.



## Reviewing district and school performance

Community (rather than state) review and opportunity for action is an important component of an effective accountability system. If any group — including but not limited to parent groups, community advocacy groups, teacher groups, or student groups — believes that the state standards are not being met in a particular school, after reviewing the results of the reporting system devised by the state, they would first be able to use the existing Uniform Complaint Procedure to voice their concerns. This would also provide a process by which the district could present a corrective plan, should it find that state standards are indeed not being met.

If the district's response fails to resolve the problem, individuals should then be able to bring an appeal to an educational authority with the power to require adequate responses on the part of schools and districts.

### **Recommendation 4.3:**

We therefore recommend that the state Legislature establish a procedure for appeal, where citizen groups who have gone through the Uniform Complaint Procedure could bring their case to the county office of education or other responsible state-created agency, again providing sufficient evidence to justify their case of failing to meet state standards. The county office would then have the authority to investigate the complaint, determine its validity, and investigate which of several possible causes is responsible and therefore which resolutions are appropriate. This provides a mechanism for correcting actions of schools and districts in the event they are unable to resolve problems on their own.

Such a system would include progressive monitoring, assistance for schools that are not performing well, and ultimately the loss of local flexibility in the use of resources if schools fail to improve or violate the broad regulatory constraints.

## Refining the Quality Education Model

The final step in the process will be to use the information gathered by the reporting system described above, as well as information gathered by the process of citizen responses and complaints based on this reporting system, to revise the Quality Education Model itself. For example, if there are substantial complaints about inadequate facilities that cannot be resolved under the proposed new funding model for facilities, then this information should be used to revise the funding levels or the allocation procedures for funding maintenance and facilities. If districts routinely depart from the parameters of the Quality Education Model, for example by maintaining class sizes that are higher or lower than the model's guidelines, then this information might be used to change funding allocations. If districts and schools routinely violate minimum standards for counselors, for example, then the reasons for this will need to be assessed and the inclusion of counselor standards in the Quality Education Model re-evaluated. If certain

kinds of districts — small rural districts, for example, or urban districts — have difficulty adhering to state minimum requirements, then changes in funding mechanisms may be justified. If certain kinds of schools prove unable to make progress when judged by an expanded Academic Performance Index, then the reasons for such failures should be assessed and perhaps the overall strategy of providing input and outcome standards will have to be revised.

Of course, a refinement of the Quality Education Model would take place some years in the future, and the emphasis in the coming years should be on its initial development and successful implementation, not its revision or replacement. However, we stress that the interim goal of the state should be to collect the information necessary to continuously assess the effects of the Quality Education Model, and that this is one of the benefits of establishing a uniform set of standards and an associated reporting system.

We stress in addition that the collection of appropriate information and the possibility of revising and refining the Quality Education Model cannot be achieved unless there is consistency and stability in developing and implementing this model. The purpose of a Master Plan, after all, is the development of a framework that guides state and local policy for decades, not for a year or two. Therefore adoption of the Quality Education Model, and of the effectiveness and accountability system we have proposed as part of it, requires that the state make a long-term commitment to the process of developing, implementing, and refining this approach to financing schools.

# **A Place to Learn and Work**

## **Part 5. Develop and Maintain Adequate and Appropriate Educational Facilities**

This part of the report is organized according to five major school facility policy areas: (1) assuring stable and adequate funding; (2) allocating funds equitably to meet local needs; (3) establishing high standards and accountability; (4) promoting efficiency and effectiveness in the use of capital resources; and (5) establishing environmental review procedures appropriate to assuring a healthy learning environment.

### **Introduction**

We believe that a world-class public education system must include state and local financial support of and shared responsibility for quality educational facilities. While specific criteria must be developed to determine and ensure adequacy for school facilities, there is no doubt that the current model of funding for public school facilities in California is unresponsive to planning and funding needs of school districts, and, therefore, results in the inefficient use of resources for facilities. In particular, reliance solely on state general obligation bonds and the current method of allocating bond proceeds creates a system that has not been conducive to long-term planning for school facility needs at the local level, and that fails to leverage or encourage the development of local sources of funding for school capital needs.

Therefore, we recommend that the current system of providing state facilities financing to school districts should be replaced with a system that ensures that state funding is stable, reliable, and available when needed. School districts would be responsible for assuring a stable source of local revenue to supplement state funding for local facility needs. We also believe that school districts need greater flexibility to use funds most effectively at the local level. Realizing that many school districts have spent several years developing their project applications under the current state allocation system and that they are prepared to construct or modernize facilities when bond funds become available, those districts should be allowed to complete their projects under the current system. We suggest that a transition occur from the current system of state support that relies solely on the allocation of bond proceeds to a system that provides annual appropriations to districts, with the requirement that districts will supplement these annual appropriations to meet state standards and achieve the goals of district school facilities plans.

We further suggest that this transition be structured to ensure that the existing construction / modernization backlog and the needs of critically overcrowded schools that currently exist are given high priority for state bond funding during the transition period.

Thereafter, state bond funds would continue to be used to assist districts that experience difficulties in generating their local match, have special needs, or experience unforeseen problems such as natural disasters. The following sections elaborate on these goals.

## **Adequate Funding**

Goal: Provide an adequate, stable and reliable source of funding that is available when needed and that addresses current and future capital outlay needs<sup>27</sup>.

### **Moving to a New Funding Model**

#### **Recommendation 5.1:**

The working group recommends that the current funding model be replaced with annual state per-pupil allocations that are restricted to assisting school districts in meeting their capital and major maintenance needs according to a long-term Facilities Master Plan adopted by each school district. State and local funding for capital and major maintenance should be protected to prevent the redirection of capital resources when other cost pressures arise and to protect the citizenry's investment in major capital projects.

School facilities are an integral part of the package of resources necessary to provide a high quality education for students. The Finance and Facilities Working Group proposes a system for financing school facilities that will result in a guaranteed annual per-pupil allocation specifically for capital uses, similar to the current system for financing school operations. Moving from our current system to an annual per-pupil allocation of state funding for school facilities will require a number of steps in sequence. The first step is to determine an adequate level of resources necessary to provide each student with an educational facility that supports a high quality education. The new per-pupil funding model would be developed, in part, by 2006 and be fully operational by 2010. The annual per-pupil funding concept identified by the Legislative Analyst in *A New Blueprint for California School Facilities Finance*<sup>28</sup> serves as a model for the approach we recommend in this paper.

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<sup>27</sup> Capital outlay includes new construction, modernization, and deferred maintenance.

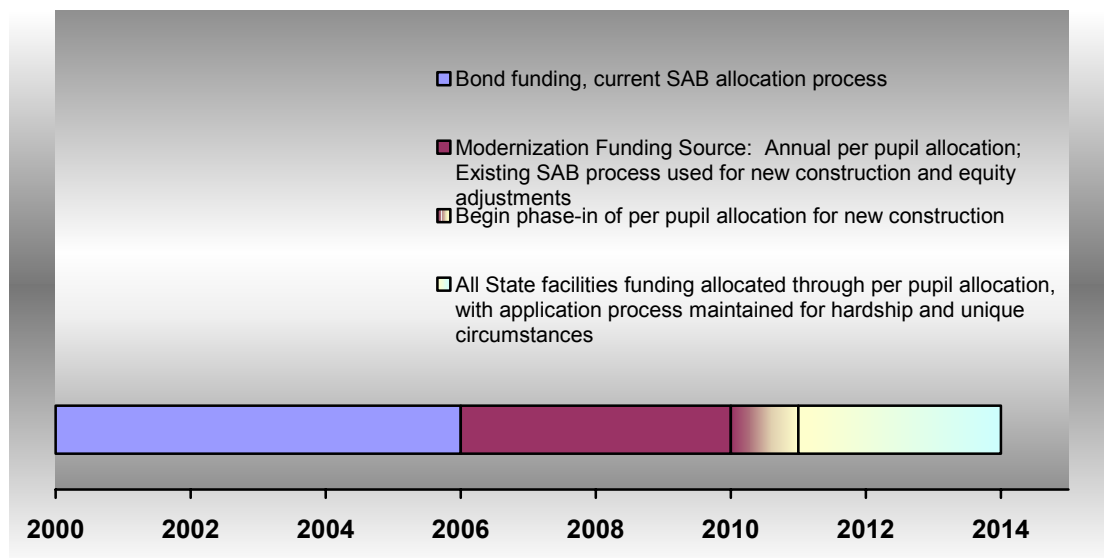
<sup>28</sup> In earlier sections of this report, a case has been made for adequacy in financing school operations largely on a per-pupil basis. In making that case, the working group was guided by research as well as the experience of other states where various forms of adequacy models have been implemented. Similarly, the Facilities subgroup has benefited from work done by the Legislative Analyst proposing a new model for financing school facilities to ensure that funding is available when needed (*A New Blueprint for California School Facility Finance*, May 1, 2001). We also examined a report published by the Public Policy Institute of California (*Financing New School Construction and Modernization: Evidence from California*, Brunner, E. and Rueben, K., June 2001.)

## Transition Period for New Funding Model

### Recommendation 5.2:

The working group recognizes that moving to a new paradigm for school facilities funding will require a transition period. We recommend that a ten-year transition plan be adopted during which the reliance on state General Obligation bonds to fund facilities will be phased out and funding through annual per-pupil allocations from the state General Fund will be phased in.

The specific elements of this concept can be found in our first recommendation, and are represented graphically in the chart below:



**2002-2006:** State facilities funding will continue to be provided primarily through statewide bonds and through the current application process for the purpose of making existing facilities adequate. Specifically, we recommend that through 2006, priority for state bond funding be given to projects that will clear the current backlog. In addition, we recommend a set-aside of funds specifically for districts with critically overcrowded schools, as defined by the Legislature. Further, we recommend that planning and necessary legislation be adopted during this period to begin moving to a per-pupil allocation system in 2006.

**2006-2008:** We recommend that the state, beginning in 2006, transition to a new per-pupil allocation model by providing annual apportionments to school districts for use in renovation, modernization and major maintenance projects. School modernization projects would be funded from a per-pupil allocation model sufficient to support a projected level of modernization need for a future period of

25 years, amortized to establish an appropriate annual per-pupil allocation amount. New construction, equalization efforts and special adjustments will continue to be funded through the State Allocation Board's application process, but reliance on that process begins to diminish.

**2008-2010:** Gradually phase out facilities funding through the existing allocation process, so that, by 2010, the state has fully adopted a financing system for the construction of new facilities through annual state per-pupil allocations. This annual allocation will be restricted and protected by law to meet established Quality School Facility (QSF) standards and school districts would provide local resources to supplement the State's QSF allocation to ensure adequate funding, should districts' facilities master plans determine that such local participation is necessary. Ongoing maintenance would continue to be funded from district Proposition 98 allocations.

**After 2010:** The primary source of capital outlay funding for K-12 education is a constitutionally guaranteed annual allocation, the level set by the state and supplemented with local resources. This constitutional guarantee, while similar to Proposition 98, would not otherwise impact the calculations used to determine state funding of school operations under Proposition 98. With the advent of Quality School Facility allocations to school districts and the expectation that school districts will provide locally raised supplemental funding, there are likely to remain some low-wealth districts that will be unable to provide their full contingent of local match, growing districts that may have capital and ongoing maintenance needs that exceed the level of funding provided under the QSF formula, or special funding needs brought on by unforeseen circumstances such as natural disasters. Therefore, after 2010, the State should maintain an application-based process to address the additional school facilities needs that may occur as a result of these special circumstances.

Local school districts will be expected to supplement the State per-pupil allocations for capital outlay from their Proposition 39 bonding capacity, from developer fee revenues or any other local source available to the district. Moreover, the Legislature should consider establishing additional local revenue options (e.g., tax increment financing) that would supplement currently available sources.

## **ALLOCATIONS AND EQUITY**

Goal: Facilities funding must be equitably allocated to meet the local needs of school districts throughout the state.

Within the framework of the funding model that the working group is recommending, there are three issues within the topic of allocations and equity that were discussed and addressed:

## **Allocation Amounts**

The working group recommends that the state base per-pupil grant amount be appropriate to the varying levels of education. For instance, the base per-pupil allocation for an elementary school district should not be equivalent to the base per-pupil allocation for a unified school district.

## **Leveling Up**

Students and teachers within and among school districts throughout the state should work and learn in facilities that will promote and support a high quality education. Meeting the existing backlog of need for facility construction, renovation and repair will “level up” all facilities in the state to a comparable standard of adequacy. The group proposes to achieve this by emphasizing within the years of 2002-2006 state bond funding based upon projected need. Once all school districts have achieved levels of adequacy for their facilities and the state transitions into its base per-pupil allocation, the issue of equity moves from one of “leveling up” to one of accommodating special circumstances.

## **Special Adjustments**

While it is anticipated that a standardized per-pupil allocation for each type of school will be developed to support Quality School Facilities, and that this allocation will be adjusted annually to reflect rising construction costs, the working group recognizes that there are some special circumstances among school districts throughout the state that may increase the cost of facilities construction.

### **Recommendation 5.3:**

Therefore, we recommend that the Legislature consider authorizing a limited number of adjustments to supplement the state base per-pupil allocation. As with our recommendations for adjustments to school operating fund allocations (see the Part 2: Categorical Program Adjustments), we believe special circumstances related to geography, land use and unique school district factors may warrant consideration for additional funding beyond the annual per-pupil grant.<sup>29</sup>

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<sup>29</sup> Examples of adjustments discussed by the working group include toxic contamination mitigation, high land costs, severe climate conditions, geologic challenges, technology infrastructure inadequacies and other unique site preparation requirements.

## **GUARANTEEING QUALITY SCHOOLS: STANDARDS, ACCOUNTABILITY & INTERVENTIONS**

Goal: Through common standards and accountability systems for schools throughout the state, assure that all students, teachers, administrators and other staff have appropriate learning and working environments to provide a high quality education. Assure that standards are met and maintained in each school through appropriate monitoring, assistance and intervention.

Common standards will establish an expectation of the condition and quality of school facilities throughout the state. The linkage of the standards to a reliable source of annual state funding is direct and logical: The state establishes the expectations and guarantees the provision of resources to meet them. The condition and quality of each district's facilities will be measured against the standards in the first year and deviations from the standards will be identified. The specific facility deviations from the standards are addressed in a five-year corrective action plan, which quantifies the facility needs of the district in terms of capital dollars needed. The action plan is a part of the Facilities Master Plan of the District.

### **Statewide Facilities Standards**

#### **Recommendation 5.4:**

Establish clear, concise and workable standards that are characteristic of facilities that provide a high quality/high performance teaching and learning environment.

The Facilities Group recommends the following language be amended to Education Code Section 17251(g) in reference to developing statewide facilities standards:

Education Code Section 17251 (g)--The California Department of Education shall develop standards for use by school districts to evaluate existing school facilities. The application and use of the state standards is the responsibility of the local school district governing board. The standards shall include, but not be limited to, the following categories:

- 1) Classrooms: address the adequacy of the number and size of classrooms to deliver the local educational program
- 2) Maintenance: address the conditions of the building – good repair, painted, roofs in good condition, and inspections occur on an adequate periodic basis



- 3) Cleanliness: address litter and graffiti; assure clean and adequate food preparation and serving facilities
- 4) Safety: address fire hazards, emergency telephone accessibility, air quality, and other health issues.
- 5) Windows: are operable, safe, and clean
- 6) Restrooms: are operable, safe, and clean
- 7) Drinking water: fountains are operable, safe, and clean

### **Recommendation 5.5:**

We recommend that each school district prepare and, with appropriate public review, adopt a five-year facilities plan to meet or exceed state facilities standards<sup>30</sup>.

As a means of ensuring public accountability, each school district would be required to develop and annually update a Facilities Master Plan that would identify long-term capital and ongoing maintenance needs for the district, along with a plan of finance to address these needs. The finance element of the plan would delineate the amount and source of state and local funds the district anticipates receiving over the course of the prescribed term, along with a contingency plan in the event any proposed funds do not materialize. The district plan would be subject to public review and comment during local hearings, and a final plan adopted by the local board would be filed with the county office of education and the State Department of Education. Current restrictions that dictate the timing and use of state funding would be eliminated and replaced with this new system of accountability.

The initial five-year plan must be designed to ameliorate all deficiencies within the first five years with the recognition that appropriate state funding support will be in place. The five-year plan will be designed to allow for flexibility in adjusting the plan to meet emergent needs. The five-year plan must be updated annually, and would allow for rolling benchmarks and goals.

Each district at annual budget adoption will reassess itself against the statewide standards and affirm its five-year plan, translating it into funds specifically budgeted for projects required to bring the district into compliance with the standards. The educational specifications that are unique to individual districts may be included in and become part of the locally applied standards, and the annual reassessment and planning.

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<sup>30</sup> It is recommended that the state provide a Facilities Master Plan template for districts that need technical assistance with consideration that funding assistance may be necessary to help those districts create a facilities master plan. This may involve developing a cost estimate upon which to gauge appropriate level of state financial assistance.

## **Intermediate Agency Role and Responsibility**

### **Recommendation 5.6:**

Adopt necessary policy and statutory changes so that the annual budget for each school district includes a capital spending component that is reviewed and assessed as part of the AB 1200 financial and management accountability process. Technical assistance, which may be warranted based on such a review, shall be available to school districts through regional and state agencies.

The role of intermediate agencies, such as county offices of education, is to assist local school districts within their respective counties in providing high quality education. County offices of education achieve this objective by providing direct support to school districts and aiding them in student academic development and professional development. Further, county offices of education often provide supplemental programs for students, teachers and administrators in their districts that compliment those programs offered by the school districts. Finally, county offices of education review the financial health of school districts through the budget review and approval process.

The Working Group recommends that county offices of education, or other successor intermediate agencies, incorporate a review of capital budgets against school district facilities plans and offer, where needed, further support by providing technical, early intervention and prevention assistance to their respective school districts regarding adequate educational facilities. County offices of education, as a part of providing such support, would monitor and verify facilities planning and progress of its districts, and when applicable, would intervene by communicating with the local board of education and the district superintendent when the district fails to meet statewide facilities standards – noting the nature of the departure from the standards and offering assistance, including direct intervention. If the county office of education logistically cannot bear the burden of direct intervention, the agency would be granted the power to contract for those services on behalf of the district<sup>31</sup>.

Failure of districts in making assessments, creating plans to address deficiencies or failure to make progress toward established standards may warrant direct intervention by a county office of education or other agencies. The intervention may include continuous monitoring, commenting and direct management assistance, the creation of an alternative school repair and/or construction program, state assumption of local board authority and the use by intermediate agencies or the state of statutorily authorized emergency powers to expedite the correction of unsafe or sub-standard facilities to be

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<sup>31</sup> Appendix C outlines the responsibilities of various state agencies to clarify the relationship of local education agency and state agency roles in the provision of educational facilities.

paid for by emergency loans, if necessary. State QSF funding for school districts that are determined to be out of substantial compliance with their Facilities Master Plan could be withheld until compliance was achieved. Intervention by the state would be implemented only after all administrative processes of the local district and intermediate agencies have been exhausted.

## **Statewide Inventory**

### **Recommendation 5.7:**

It is the recommendation of the group that the state create a statewide school facilities inventory system that will assist state and local decision makers to determine short and long term school facilities needs. It is imperative that the state collects only the most critical, basic information needed to make necessary management decisions. The state will utilize information contained in existing data collection reports before requiring school districts to report any additional information needed for the school facilities inventory system.

## **Facilities Planning and Local Supplemental Funding**

If, as part of developing or updating its Facilities Master Plan, a school district finds that its capital and ongoing maintenance needs are less than the amount projected from the State's QSF allocation, matched by local effort, the school district may reduce its local effort proportionate to the reduced level of total funding needed. If, as part of this process, a school district finds that its capital and ongoing maintenance needs are less than the amount projected *solely* from the State's QSF allocation, the state will reduce the QSF allocation to that district accordingly.

## **Local Autonomy**

Regarding public education at large, the role of the local school district is to coordinate and implement an educational program conducive to academic excellence and achievement. Part of such a program is to provide adequate educational facilities that are safe, clean, appropriate and conducive to high quality education. Local school districts achieve facilities goals in tandem with state efforts through a partnership to provide adequate, stable and reliable funding.

### **Recommendation 5.8:**

The Working Group recommends that local districts be given autonomy to expend state and local funds as appropriate to meet their local educational programs insofar as such expenditures of funds enables the district to meet or exceed statewide standards for adequate facilities. Local districts would be subject to required, annual self-assessments and assessments against their Facilities Master Plans, and be required to publicly share the results of those assessments with members of their communities – students, parents, and community leaders – annually.

## **EFFECTIVENESS AND EFFICIENCY**

### Goals:

- Contain costs through measures that promote efficiency
- Promote shared/joint-use of facilities among schools, colleges and universities, municipalities and other public agencies
- Size schools appropriately to promote the most effective learning environment for students
- Develop statewide technology infrastructure that enhances and supports the classroom and facilitates accountability and assessment of district goals and objectives.

### **Recommendation 5.9:**

The working group recommends that the state provide financial incentives to school districts to promote joint or shared use of facilities. We also recommend that the state develop a technology infrastructure among, between and within educational entities that would promote improved education delivery and access to a wider range of education resources. This system of shared facility and technology infrastructure would allow districts and schools to better manage and assess financial and physical resources.

## ENVIRONMENTAL REVIEW

Goal: Develop statewide environmental standards appropriate for school facilities to assure a safe learning environment for children.

When evaluating human health risks for school sites with potential contamination, the Department of Toxic Substances Control (DTSC) uses standards described in the Preliminary Endangerment Assessment (PEA) Guidance Manual (DTSC, 1994, revised 1999). Partially based upon US Environmental Protection Agency (USEPA) risk guidelines, the screening risk analysis used in Preliminary Endangerment Assessments (PEAs) assumes residential or unrestricted land uses for school sites. In the unrestricted land use scenario, it is assumed that individuals will be exposed to all contaminants for 24 hours a day, 7 days a week, 350 days a year for a period of 30 years (6 years as a child plus 24 years as an adult). DTSC has historically viewed school properties as being equivalent to residential properties in order to ensure the safety of children. In general, DTSC has determined that a cumulative cancer risk that is greater than one excess cancer in a population of one million indicates a potentially significant health threat and DTSC may require further investigation, such as soil sampling or removal activities. To pursue such sites, in some cases districts may be required to undertake time consuming and expensive Response Action cleanup or remediation efforts in order to achieve an “unrestricted” use of the land.

Per AB2872 (1999-2000 legislation), the Office of Environmental Health Hazard Assessment (OEHHA) has been charged with developing a guidance document for assessing child specific exposure at school sites. The results of their studies are anticipated to be published by the end of 2002. In addition, the same legislation authorized OEHHA to evaluate five chemicals per year, starting in 2002, to determine if children are more sensitive than adults and therefore require additional safety margins. At this time it is not known how these school specific exposure guidelines and toxicity factors will affect current assessment of school sites.

### Contamination Health Risk Screening Analysis for School Sites

#### **Recommendation 5.10:**

The working group recommends that the Legislature ensure timely adoption and implementation of OEHHA’s guidance document by DTSC and other state and local agencies for assessing exposures and health risks at existing and proposed school sites.

## Appendix A

### Price Differences

Price differences are differences in the costs of purchasing the same market basket of goods and services in different regions of the state. Adjustments for price differences theoretically equalize purchasing power among educational agencies, and in the context of adequacy help assure that, once a budgetary level of per-pupil funding is set by the Legislature, educational agencies throughout the state are able to purchase resources of comparable value.

In practice, any system of price adjustments is only approximate and can be limited by the unavailability of high quality data, the need to maintain a manageable set of regions, and the need for such adjustments to be understandable and perceived as fair by the communities that are affected.

There are basically two approaches to price adjustments, meaning adjustments for those costs that are not under the direct influence of school district policy: Regional cost-of-living adjustments, and cost-of-education adjustments.

Cost-of-living adjustments use either the costs of some set of consumer goods and services for a region, or the costs of salaries in a region for comparable professionals, as proxies for the real local cost of key education resources. This approach is straightforward, and clearly measures costs that are beyond the control of local education administrators. Disadvantages include the potential expense of collecting high quality, comparable data across all regions, and the potential to overcompensate school districts in areas with high living costs that also have local amenities making those districts more desirable places to work.

Rueben and Herr<sup>32</sup> compared teacher compensation across eleven California education regions with that of other professionals. The comparison shows significant regional differences in average teacher salaries, and finds that generally higher cost regions had the greatest disparity between teacher salaries and the salaries for other professionals. This finding points to the value of considering regional price adjustments as part of a new school financing system for California.

The cost-of-education approach, used most comprehensively in Texas, directly examines actual differences in district expenditures. Then analytical and statistical techniques are used to separate the effects of cost factors under the control of school district administrators from factors beyond their control. Advantages of this approach are that it is based directly on education spending patterns, and therefore accounts for a wider

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<sup>32</sup> Kim Rueben and Jane Leber Herr, *Teacher Salaries in California*, Public Policy Institute of California, November 15, 2000.

range of factors and influences on education spending than cost-of-living approaches. A cost-of-education index relies on school district financial data that, for most states, may be more readily available than regional market basket data.

Disadvantages include concern over the ability to actually separate expenditure factors that are not directly under the control of school districts, and expenditure effects that are related to pre-existing differences in district revenues. This could result in regions with higher revenue school districts receiving adjustments that perpetuate those differences even if they are not legitimately related to price or need.

As noted above, price adjustments – whether based on cost of living or the cost of education – may merit consideration in California. They have a face validity that is appealing, and other states have long experience with their use. However, a note of caution is in order based on the experience of other states. Texas’ recently completed a review of its Cost-of-Education Index, originally adopted in 1990 as the next step in cost-based adjustments, which have been in use in Texas since the early 1980’s. The report, prepared by the Charles A. Dana Center of the University of Texas at Austin, took note of the issues that led to that review:

“The Cost-of-Education Index adopted in 1990 did not resolve all of the difficulties associated with earlier education finance adjustments. The very definition of the index used in Texas raised some questions since only certain costs beyond the control of the school district were included in the construction of the index. Differences in opinions existed as to which costs were beyond the control of districts and debate continues on this question.... In addition, the school district data used to compute the Cost-of-Education Index was from 1989-90, and Texas has used the index since that time without updating the underlying data. Issues related to the appropriateness of this data have raised concerns among many Texas legislators regarding the CEI and prompted the 76<sup>th</sup> Legislature to call both for an examination of the current index and for recommendations of new indices.”<sup>33</sup>

The Finance & Facilities Working Group does not recommend that the Legislature adopt factor adjustments based on calculated price differences at this time. Such adjustments are complex in their derivation, with theoretical equity subject to the practical limitations of data available at the appropriate regional scale. In addition, they have not avoided many of the apparent shortcomings of traditional categorical programs, including the appearance of a certain amount of subjectivity in their application. However, we do recommend that further consideration of price adjustments in the context of developing an adequacy-based funding system be included in the charge given to the California Quality Education Commission (see Recommendation 1.1).

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<sup>33</sup> Charles A. Dana Center, University of Texas at Austin, *A Study of Uncontrollable Variations in the Costs of Texas Public Education*, November 1, 2000.

## **Appendix B**

### **The Personal Income Tax**

The personal income tax (PIT) raises approximately \$35 billion annually, accounting for half of all General Fund revenues. The PIT is a state revenue source, with allocations in support of local government and education services being made through the state Budget Act. The personal income tax is progressive, with 10 percent of taxpayers accounting for 70 percent of PIT revenues. As a share personal income and in comparison to marginal tax rates, California's PIT is significantly above average when compared with other states that utilize a personal income tax.

While a local income tax is used to provide a portion of the funding for public schools in a few states, we do not see this as a viable local revenue option for schools in California. When assessed against our evaluation criteria, the personal income tax does not measure up to other options, and, therefore, we cannot recommend it.

- A state income tax surcharge is likely to provide at best a moderate amount of additional funding per pupil.
- Income tax yields are very sensitive to economic cycles.
- A local option income tax can only be applied to personal income.
- The income tax is highly progressive. Therefore, a significant share of funding for a local income tax option must be provided through additional state aid to assure neutrality.
- A local option income tax would require careful analysis of issues around verification of domicile. The tax may be subject to avoidance if domicile issues cannot be addressed.
- Association is weaker than property-based taxes because personal income is not directly affected by the quality of public schools.



## Appendix C

### Responsibility of State Agencies in Education Facility Delivery

There are numerous state agencies that participate in the public education system and each agency bears a unique responsibility in providing high quality education to pupils. The various state agencies and their respective roles in providing high quality education are listed below:

- *Division of the State Architect*  
The Division of the State Architect through architectural plan review and approval for school facilities in California is responsible for ensuring that school facility designs minimally meet the regulations of the Uniform Building Code, the American with Disabilities Act and the Field Act of 1933. The Division of the State Architect works increasingly with the California Department of Education and the Office of Public School Construction to assist school districts throughout the state in providing safe and adequate educational facilities.
- *California Department of Education*  
The California Department of Education (CDE) operates under the auspices of the State Superintendent of Public Instruction and the State Board of Education, and provides a variety of services to public schools and school districts throughout California. CDE assists districts and county offices of education with site approval and plan approval.
- *Department of Toxic Substances Control*  
The Department of Toxic Substances Control is responsible for ensuring that school properties acquired with state funds are free of hazardous material that may affect students and faculty that will be housed on the site.
- *State Allocation Board/Office of Public School Construction*  
The State Allocation Board is responsible for allocating state funding for new construction and modernization projects for California's public schools. As the administrative arm of the State Allocation Board, the Office of Public School Construction accepts and processes applications for funding submitted by school districts throughout the state. Upon review of applications, the Office of Public School Construction will make explicit recommendations for funding apportionments to be approved or disapproved by the State Allocation Board at one of its scheduled meetings.

## **Appendix D**

### **Funding Contribution Models Considered by the Facilities Work Team**

The Facilities Group has explored three proposed Funding Contribution models in which the contribution requirements of the state and local agencies differ.

- (1) In one model, the state is required to provide a base per-pupil allocation and the local agency is required to provide a percentage match of that base per-pupil amount.
- (2) The second model the group explored is similar to the first in that the state is required and responsible for providing a base per-pupil amount, which presumably would be sufficient for districts to use to maintain adequate facilities that meet state facility standards. Where the second model deviates from the first is in the local contribution requirement; the second model makes local contribution flexible and determined by the local agency. If the local agency facilities plan demonstrates that it can meet state facility standards with its allocated per-pupil amount from the state, it is not required to contribute local funds; however, the district may opt to contribute local funds if it wishes to exceed facilities standards.
- (3) The final funding contribution model the group explored is one in which the state and local agencies contribute a percentage of funding and based upon the district's ability to raise local revenue, the state would adjust its base per-pupil grant amount accordingly.

The working group has recommended model #2, above.